



**Mandeni Municipality
Annual Financial Statements
for the year ended 30 June 2011**

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

GENERAL INFORMATION

CURRENT TERM

MEMBERS OF EXECUTIVE COUNCIL

Mayor and Chairman of the Executive Committee	Cllr LNP Shabalala
Deputy Mayor	Cllr PM Sishi
Speaker (Ex-Officio)	Cllr GC Mfekayi
Members of the Executive Committee	Cllr BL Magwaza
	Cllr MS Mdunge
	Cllr S Ndlovu
	Cllr SB Zulu

Other councillors

Cllr EL Dube
Cllr EK Dube
Cllr HM Gumede
Cllr P Gumede
Cllr NE Hlabisa
Cllr BA Khumalo
Cllr CT Kumalo
Cllr NP Masondo
Cllr GPS Mathonsi
Cllr XH Mathonsi
Cllr LR Mbonambi
Cllr K Naidoo
Cllr LR Mdletshe
Cllr X Mdlethe
Cllr SS Mdunge
Cllr ZM Mhlongo
Cllr JM Mkhize
Cllr BP Mngadi
Cllr N Msimango
Cllr NS Msomi
Cllr N Reddy
Cllr CZ Ngcobo
Cllr BW Ngiba
Cllr NF Ntuli
Cllr JS Zibani
Cllr MM Ziqubu
Cllr GN Zungu

Senior management

MG Ngubane - Municipal Manager
NR Hlongwa - Chief Financial Officer
NG Khumalo - Director: Corporate Services
R Sewdular - Director: Technical Services
S Khanyile - Acting Director: Economic Development and Planning

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

GENERAL INFORMATION

PRIOR TERM

MEMBERS OF EXECUTIVE COUNCIL

Mayor and Chairman of the Executive Committee	Cllr BL Magwaza
Deputy Mayor	Cllr J Singh
Speaker (Ex-Officio)	Cllr ZP Makhoba
Members of the Executive Committee	Cllr DM Shandu
	Cllr BP Mngadi
	Cllr N Reddy
	Cllr MS Mdunge

Other councillors

Cllr GPS Busane
Cllr EL Dube
Cllr NE Hlabisa
Cllr BA Khumalo
Cllr JE Luthuli
Cllr SV Manqele
Cllr MJ Mathonsi
Cllr NJ Mbusi
Cllr SS Mdletshe
Cllr PM Sishi
Cllr S Ndlovu
Cllr GN Zungu
Cllr SJ Zibane
Cllr GC Mfekayi
Cllr SB Zulu
Cllr NF Ntuli
Cllr BT Nkabinde
Cllr JB Nzuza
Cllr SD Shange
Cllr LR Shembe
Cllr JJ Vilakazi
Cllr JM Zondi
Cllr TJ Zondo
Cllr S Mbonambi
Cllr ZS Gumede

Senior management

MG Ngubane - Municipal Manager
NR Hlongwa - Chief Financial Officer
NG Khumalo - Director: Corporate Services
R Sewdular - Director: Technical Services
S Khanyile - Acting Director: Economic Development and Planning

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GENERAL INFORMATION

Auditors

Auditor-General

Bankers

First National Bank

Registered office

Mandeni Municipal Office
02 Kingfisher Road
Mandeni
4490

Business address

02 Kingfisher Road
Mandeni
4490

Postal address

P O Box 144
Mandeni
4490

Accounting Officer

Dr Mpilo Ngubane

Telephone number

032 - 456 8200

Fax number

032 - 456 2504

Email address

info@mandeni.gov.za

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACTING MUNICIPAL MANAGER'S CERTIFICATION

Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 7 to 64, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Acting Municipal Manager
31 August 2011

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

STATEMENT OF FINANCIAL POSITION

	Note(s)	2011 R	2010 R
ASSETS			
Current Assets			
Cash and cash equivalents	3	35,775,137	31,889,418
Trade and other receivables from exchange transactions	4	1,660,739	1,865,806
Other receivables from non-exchange transactions	5	3,513,971	7,425,860
Inventories	6	315,006	304,590
VAT receivable	12	1,519,531	-
		42,784,384	41,485,674
Non-Current Assets			
Property, plant and equipment	7	207,829,125	185,844,469
Investment property	8	80,165	80,165
		207,909,290	185,924,634
Total Assets		250,693,674	227,410,308
LIABILITIES			
Current Liabilities			
Trade and other payables from exchange transactions	9	7,453,379	3,328,052
Consumer deposits	10	1,180,287	993,012
VAT payable	11	-	305,458
Other employee benefits	13	2,152,460	2,689,523
Unspent conditional grants and receipts	15	292,386	16,348,663
Borrowings	16	100,314	196,386
		11,178,826	23,861,094
Non-Current Liabilities			
Borrowings	16	34,185	134,454
Employee benefit obligations	14	6,084,695	5,138,709
		6,118,880	5,273,163
Total Liabilities		17,297,706	29,134,257
Net Assets		233,395,968	198,276,051
NET ASSETS			
Reserves			
Housing reserve fund	17	1,572,968	1,504,439
Accumulated surplus		231,823,000	196,771,612
Total Net Assets		233,395,968	198,276,051

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2011 R	2010 R
Revenue			
Property rates	19	20,451,224	21,914,259
Service charges	20	13,354,630	12,901,660
Property rates - penalties imposed and collection charges		392,998	295,864
Rental of facilities and equipment	21	186,623	185,744
Interest received - external investment	22	2,001,559	860,987
Fines		451,559	365,037
Licences and permits		1,191,138	1,805,113
Government grants & subsidies	23	102,339,356	87,683,876
Other income	24	6,420,860	3,312,829
Total Revenue		146,789,947	129,325,369
Expenditure			
Employee related costs	25	(27,350,739)	(25,153,333)
Remuneration of councillors	26	(6,211,185)	(6,214,067)
Retirement benefit contributions	13	(945,986)	(537,812)
Depreciation and amortisation	27	(17,505,618)	(3,777,755)
Finance costs	28	(43,137)	(77,635)
Debt impairment		(9,688,680)	(31,795,601)
Collection costs		(146,182)	(361,377)
Repairs and maintenance		(5,432,455)	(7,090,792)
Bulk purchases	29	(5,868,382)	(4,367,300)
Contracted services	30	(8,978,174)	(6,622,909)
Grants and subsidies paid	31	(13,177,403)	(28,988,514)
General Expenses	32	(15,804,732)	(12,250,373)
Total Expenditure		(111,152,673)	(127,237,468)
Gain/(loss) on sale/disposal of assets		-	84,560
Impairment (loss)/reversal of impairment loss		(585,849)	(17,803)
Inventories: (Write down)/reversal of write down to Net Realisable Value	6	-	(279)
Surplus for the year		35,051,425	2,154,379

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

STATEMENT OF CHANGES IN NET ASSETS

	Housing reserve fund R	Accumulated surplus R	Total net assets R
Balance at 01 July 2009	1,394,440	63,382,180	64,776,620
Changes in net assets			
Restated surplus for the year	-	2,154,379	2,154,379
Change in estimates on prior year balance	-	130,376,688	130,376,688
Interest capitalised	109,999	-	109,999
Changes in accounting policy	-	440,521	440,521
Correction of prior period error	-	417,844	417,844
Total changes	109,999	133,389,432	133,499,431
Balance at 01 July 2010	1,504,440	196,771,575	198,276,015
Changes in net assets			
Interest capitalised	68,528	-	68,528
Net income (losses) recognised directly in net assets	68,528	-	68,528
Surplus for the year	-	35,051,425	35,051,425
Total recognised income and expenses for the year	68,528	35,051,425	35,119,953
Total changes	68,528	35,051,425	35,119,953
Balance at 30 June 2011	1,572,968	231,823,000	233,395,968
Note(s)			

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

CASH FLOW STATEMENT

	Note(s)	2011 R	2010 R
Cash flows from operating activities			
Receipts			
Taxation		16,905,921	14,295,724
Sale of goods and services		12,402,268	13,791,131
Grants		93,073,975	94,425,506
Interest income - external investments		2,001,559	860,987
		<u>124,383,723</u>	<u>123,373,348</u>
Payments			
Employee costs		(33,561,924)	(31,367,400)
Finance costs		(43,137)	(77,635)
Other payments		(46,620,477)	(54,424,707)
		<u>(80,225,538)</u>	<u>(85,869,742)</u>
Net cash flows from operating activities	34	<u>44,158,185</u>	<u>37,503,606</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(40,076,125)	(19,703,054)
Proceeds from sale of property, plant and equipment	7	-	84,560
Net cash flows from investing activities		<u>(40,076,125)</u>	<u>(19,618,494)</u>
Cash flows from financing activities			
Repayment of borrowings		(196,341)	(209,785)
Net cash flows from financing activities		<u>(196,341)</u>	<u>(209,785)</u>
Net increase/(decrease) in cash and cash equivalents		3,885,719	17,675,327
Cash and cash equivalents at the beginning of the year		31,889,418	14,214,091
Cash and cash equivalents at the end of the year	3	<u>35,775,137</u>	<u>31,889,418</u>

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

These annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003), and the following Notices:

- General Notice, issued in Government Gazette no. 28095 of December of 2005;
- General Notice, issued in Government Gazette no. 30013 of June 2007; and
- General Notice, issued in Government Gazette no. 31021 of May 2008.

The municipality has elected to implement the transitional provisions outlined in Directive 4, dated February 2008, from the Accounting Standards Board.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies applied are consistent with those used to present the previous period's annual financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.3 Going concern - assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Comparative figures

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these annual financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as it is practical, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far it is practical, and the prior year comparatives are restated accordingly.

1.5 Housing development fund

The Housing Development Fund was established in terms of Section 15(5) and 16 of the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, requires that the municipality maintain a separate housing operating account. Loans from national and provincial government used to finance housing developments undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund.

The Housing Act also requires in terms of Section 14(4)(d)(ii)(aa) read with, inter alia, Section 16(2) that the net proceeds of any rental, sale of property or alienation, financed previously from government housing funds, be paid into a separate housing operating account and be utilised by the municipality for housing development subject to the approval of the provisional MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Fund:

- The proceeds in this fund are utilised for housing developments in accordance with the National Housing Policy and also for housing development projects approved by the MEC.
- Any contributions to or from the fund are shown as transfers in the statement of changes in net assets.
- Interest earned on the investments backing up this fund is recorded as interest earned by the housing development fund.
- Any surplus on the housing statement of financial performance must be transferred to the housing development fund.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

The assets acquired under finance leases are not recognised as property, plant and equipment as per the exemption by Directive 4. It will recognised as such in the subsequent financial year.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value as at date of acquisition.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.6 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and servicing equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Subsequent measurement - revaluation model (land and buildings)

Subsequent to initial recognition, land and buildings are carried at a cost amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Subsequent measures - cost model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset

Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight line basis over the estimated useful lives of items of property, plant and equipment unless depreciation of certain assets is being determined using a method other than estimated useful life.

Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The annual depreciation rates are based on the following estimated average useful lives of items of property, plant and equipment:

Item	Average useful life
Infrastructure	
• Roads and paving	30
• Pedestrian malls	30
• Electricity	20 - 30
• Water	15 - 20
• Sewerage	15 - 20

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.6 Property, plant and equipment (continued)

Community	
• Buildings	30
• Recreational facilities	20 - 30
• Security	5
• Halls	30
• Libraries	30
• Parks and gardens	30
• Other assets	5
Other assets	
• Buildings	30
• Specialist vehicles	10
• Other vehicles	5
• Office equipment	3 - 7
• Furniture and fittings	7 - 10
• Watercraft	15
• Bins and containers	5
• Specialised plant and equipment	10 - 15
• Other items of plant and equipment	2 - 5
• Landfill sites	15

The municipality is however opted to disclose assets following the Directive 4 on property, plant and equipment. The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the statement of financial performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance.

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or where there are no further economic benefits or service potential expected from the use of the asset. The surplus or deficit arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance.

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses and development costs. The municipality recognises an intangible asset in its statement of financial position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible assets for use or sale;
- it is technically feasible to complete the intangible assets;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.7 Intangible assets (continued)

Where intangible assets are acquired by the municipality for no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Where intangible assets are acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired are initially measured at fair value (the cost). If the acquired items' fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less any accumulated amortisation and any impairment losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but it is subject to an annual impairment test.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over the estimated useful lives using the straight-line method. The annual amortisation rates are based on the following estimated average asset lives:

Item	Useful life
Computer software	5

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the statement of financial performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and impairment loss is charged to the statement of financial performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount and is recognised in the statement of financial performance.

1.8 Investment property

Investment property includes property (land or a building - or part of a building - or both land or building held under finance lease) held to earn rentals and/or for capital appreciation, rather than held:

- to meet service delivery objectives, or
- the production or supply of goods or services, or for
- the sale in the ordinary course of assets.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.8 Investment property (continued)

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at the date of completion.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Subsequent measurement - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciable separately. Land is not depreciated. The annual depreciation rates are based on the following estimated average assets lives:

Item	Useful life
Investment property	15

1.9 Inventories

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process. Where inventories are acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), their costs are deemed to be equal to the fair value of the items as at the date of acquisition.

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventories are recognised in the statement of financial performance in the year in which they arose. The amount of any reversal of any write-down on inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

1.10 Financial instruments

Initial recognition and measurement

Financial instruments are initially recognised at fair value.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.10 Financial instruments (continued)

Subsequent measurement

Financial instruments are categorised according to their nature as either financial assets at fair value through surplus or deficit, held to maturity, loans and receivables, or available for sale. Financial liabilities are categorised at fair value through surplus or deficit or financial liabilities carried at amortised cost (other). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP standard on financial instruments, is in accordance with IAS 39.

Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held to maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposable proceeds and the carrying amount is charged or credited to the statement of financial performance.

Trade and other receivables

Trade receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and are subsequently measured at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Significant financial difficulties of the debtor, probability of the debtor will enter bankruptcy or financial reorganisation, and default on payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollectable, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

Trade payables and borrowings

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value, and are subsequently measured at amortised cost, which is the initial carrying amount, less repayments plus interest.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments that are readily convertible to a known amount of cash, that are held with registered banking institutions with maturities of 3 months or less and are subject to an insignificant risk of change in fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.11 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state. An expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the below mentioned acts:

- the Municipal Finance Management Act (Act No. 56 of 2003); or
- the Municipal Systems Act (Act No. 32 of 2000); or
- the Public Office Beares Act (Act No. 20 of 1998); or
- the Municipality's Supply Chain Management Policy

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as revenue in the statement of financial performance.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present or constructive obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.14 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44 unless the possibility of an outflow or resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefit is probable.

Future events that may effect the amount required to settle an obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

1.15 Leases

Finance leases - lessee

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Property, plant equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured at the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance costs and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope within the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

Finance leases - lessor

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as a sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalment received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.16 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from council and are levied monthly.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Revenue from the sale of tender documents is recognised at the point of sale.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method on a time proportionate basis.

1.17 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experiences of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.18 Grants, transfers and donations

Grants, transfers and donations received or receivable are recognised when the sources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grants, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current. Borrowings costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.20 Retirement benefits

The municipality provides retirement benefits for its employee's and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

The following are defined benefit plans: Natal Joints Superannuation, Retirement and Provident Funds (NJMP). These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by multi-employer plan. It is therefore deemed impractical to obtain this information at a suitable level of detail. Current contributions by council are charged against expenditure on the basis of current service costs. Full actuarial valuations are performed at least every 5 years. The last valuation was done on 31 March 2006.

1.21 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.21 Construction contracts and receivables (continued)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.22 Impairment of assets

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year.

If there is any indication that a cash-generating asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.23 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ACCOUNTING POLICIES

1.24 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.26 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices A, B, C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury. Refer to Appendix E.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 49.

1.28 Events after the reporting date

The municipality has carefully considered whether events occurring between the balance sheet date and the date of approval should be reflected in the annual financial statements. Events after the reporting period (or 'post balance sheet events') are either adjusting events or non-adjusting events. Adjusting events provide further evidence of conditions that existed at the balance sheet date and the carrying amounts of assets and liabilities at the balance sheet date are adjusted for such events. Non-adjusting events relate to conditions that arose after the balance sheet date and should be disclosed.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. New standards and interpretations (continued)

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity's decision to terminate an employee's employment before the normal retirement date; or
 - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. New standards and interpretations (continued)

- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,005	11,676
Cash at bank	796,183	3,277,798
Call deposits	34,971,949	28,599,944
	35,775,137	31,889,418
<hr/>		
Cash on hand		
Balance at end of the year	7,005	11,676
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MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

				2011 R	2010 R
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3. Cash and cash equivalents (continued)

The municipality had the following current accounts

Account no./description	Cash book balance			Bank statement balance		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
First National Bank - Mandeni branch: Account number 52940480587	796,183	3,277,798	(524,580)	796,183	3,245,879	113,575

The municipality had the following bank accounts

Account no./description	Cash book balance			Bank statement balance		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
First National Bank - Mandeni branch - Account number - C061294217372	22,689,019	6,129,956	4,013,643	22,689,019	6,129,957	4,013,643
First National BANK - Mandeni branch - Account number - C062138398327	2,226,719	3,737,929	3,550,534	2,226,719	3,737,929	3,550,534
First National BANK - Mandeni branch - Account number - C062028673219	4,042,178	2,039,280	2,073,995	4,042,178	2,039,279	2,073,995
First National BANK - Mandeni branch - Account number - C062252919471	298,804	11,060,607	-	298,804	11,060,607	-
First National Bank - Mandeni branch - Account number - C062113325882	27,772	216,005	11,426	27,772	216,005	-
Nedbank - Mandeni branch - Account number - 23581136/9998	5,662,966	5,392,161	5,057,822	5,662,966	5,392,161	-
Standard BANK - Mandeni branch - Account Number - 068637527002	24,489	24,004	23,530	24,489	24,004	-
Total	34,971,947	28,599,942	14,730,950	34,971,947	28,599,942	9,638,172

The bank accounts have been reconciled separately as a change from last year.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
4. Trade and other receivables		
Gross balances		
Electricity	1,994,685	1,688,217
Refuse	16,282,847	19,033,561
	18,277,532	20,721,778
Less: Provision for debt impairment		
Electricity	(1,813,832)	(1,536,424)
Refuse	(14,802,961)	(17,319,548)
	(16,616,793)	(18,855,972)
Net balance		
Electricity	180,853	151,793
Refuse	1,479,886	1,714,013
	1,660,739	1,865,806
Electricity		
Current (0 -30 days)	129,793	182,687
31 - 60 days	125,595	(46,402)
61 - 90 days	84,096	117,158
91 - 120 days	46,199	(15,145)
121 - 365 days	929,959	386,392
> 365 days	679,043	1,063,527
Less: Impairment	(1,813,832)	(1,536,424)
	180,853	151,793
Refuse		
Current (0 -30 days)	162,742	114,462
31 - 60 days	730,843	250,279
61 - 90 days	182,981	221,841
91 - 120 days	91,960	208,076
121 - 365 days	2,739,446	1,434,202
> 365 days	12,374,875	16,804,701
Less: Impairment	(14,802,961)	(17,319,548)
	1,479,886	1,714,013
Reconciliation of debt impairment provision		
Balance at beginning of the year	(58,649,155)	(26,853,556)
Contributions to provision	(9,688,680)	(31,795,599)
Debt written off against provision	9,937,374	-
Impairment related to Non-exchange Transactions - Rates	41,339,552	39,793,183
Impairment related to Non-exchange Transactions - Other	444,116	-
	(16,616,793)	(18,855,972)

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
5. Other receivables from non-exchange transactions		
Rates	42,898,297	43,729,758
Other	1,147,579	1,093,604
Insurance claims	-	137,259
Subsidies	279,500	1,004,000
Housing rental	40,230	40,230
Other receivables	932,033	1,214,192
Less: Non-exchange Impairment - Rates	(41,339,552)	(39,793,183)
Less: Non-exchange Impairment - Other	(444,116)	-
	3,513,971	7,425,860
Rates		
Current (0 -30 days)	14,598	(1,626,275)
31 - 60 days	872,878	721,077
61 - 90 days	300,310	1,007,459
91 - 120 days	293,639	630,525
121 - 365 days	9,459,525	6,885,749
> 365 days	31,957,347	36,111,223
Less: Impairment	(41,339,552)	(39,793,183)
	1,558,745	3,936,575
Other		
Current (0 -30 days)	1,068	-
31 - 60 days	1,641	-
61 - 90 days	1,541	-
91 - 120 days	-	-
121 - 365 days	106,241	-
> 365 days	1,037,088	1,093,604
Less: Impairment	(444,116)	-
	703,463	1,093,604

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
6. Inventories		
Consumable stores	244,104	233,688
Maintenance materials	70,902	70,902
	315,006	304,590
Consumable stores		
At cost	233,688	204,635
Additions	959,139	565,643
Issued (expensed)	(948,723)	(536,869)
Write-down/(reversal of write-down) to Net Replacement Value (NRV) or Net Replacement Cost (NRC)	-	279
	244,104	233,688
Maintenance materials		
At cost	70,902	66,672
Additions	-	387,845
Issues (expensed)	-	(383,615)
	70,902	70,902

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

7. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	336,373	-	336,373	336,373	-	336,373
Buildings	518,878	(381,148)	137,730	518,878	(362,101)	156,777
Infrastructure	181,612,777	(17,746,959)	163,865,818	163,561,074	(1,805,279)	161,755,795
Community	15,434,118	(3,463,520)	11,970,598	17,457,348	(3,393,389)	14,063,959
Other assets	11,008,569	(4,478,911)	6,529,658	9,308,382	(3,453,733)	5,854,649
Capital work in progress	24,988,948	-	24,988,948	3,676,916	-	3,676,916
Total	233,899,663	(26,070,538)	207,829,125	194,858,971	(9,014,502)	185,844,469

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers to Work in Progress	Accumm. Depreciation	Depreciation	Disposals	Total
Land	336,373	-	-	-	-	-	336,373
Buildings	156,777	553,114	(553,114)	-	(19,047)	-	137,730
Infrastructure	161,755,795	18,051,704	-	-	(15,941,681)	-	163,865,818
Community	14,063,959	19,747,182	(20,758,918)	(1,011,494)	(497,058)	426,927	11,970,598
Other assets	5,854,649	1,724,125	-	(23,937)	(1,047,833)	22,654	6,529,658
Capital work in progress	3,676,916	-	21,312,032	-	-	-	24,988,948
	185,844,469	40,076,125	-	(1,035,431)	(17,505,619)	449,581	207,829,125

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Revaluations	Accumm. Depreciation	Depreciation	Disposals	Total
Land	336,373	-	-	-	-	-	-	-	336,373
Buildings	518,878	-	-	-	-	(344,805)	(17,296)	-	156,777
Infrastructure	36,011,400	13,567,124	-	(3,676,916)	130,499,143	(14,625,606)	(19,350)	-	161,755,795
Community	15,788,026	99,155	-	-	1,557,001	(2,895,823)	(484,400)	-	14,063,959
Other assets	7,160,736	2,359,859	(199,045)	-	-	(2,838,814)	(809,329)	181,242	5,854,649
Capital work in progress	-	3,676,916	-	-	-	-	-	-	3,676,916
	59,815,413	19,703,054	(199,045)	(3,676,916)	132,056,144	(20,705,048)	(1,330,375)	181,242	185,844,469

Transitional provisions

Due to initial adoption of GRAP 17

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The Consultants with expertise on roads and electricity networks were used to implement this project. Aerial photograph was taken to identify all roads under the municipal, provincial and national owned. Componentization of assets was done. Measurements on lifespan and valuation of each component was done.

Provisional amounts retrospectively adjusted during the year, are as follows (refer to note 36 for effect on the annual financial statements):

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
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7. Property, plant and equipment (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. Although early adoption of GRAP 17 is used we still opted not to fully comply as far as the finance lease assets. Advantage of Directive 4 is used as a transition change.

8. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	80,165	-	80,165	80,165	-	80,165

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	80,165	80,165

Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	80,165	80,165

Description of Property

Portion 6 of Farm Lot 5 Ca No. 8440
Portion 7 of Farm Lot 5 Ca No. 8440
Lot 56 of Padianagar
Lot 1203 of Mandeni - Aloe Road
Lot 571 of Mandeni - Anderson Road
Lot 504 of Mandeni - Matthews Road
Lot 327 of Mandeni - Greig Road
Lot 1466 of Mandeni - Aloe Road
Lot 884 of Mandeni - 11 Inyathi Road
Portion 4 of Farm Lot 13 Tugela No. 13862
Portion 2 of Farm Reserve No. 21 No. 16882
The Farm Lot 5 B No. 4351 Agricultural
The Farm Lot 5 Ca No. 8440
Remainder of Farm Lot 30 Inyoni No. 13890
Portion 1 of Farm Reserve No. 21 No. 16882

The fair value could not be determined reliably as the properties have not been put on market.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
9. Trade and other payables from exchange transactions		
Trade payables	5,494,375	2,397,073
Other creditors	1,480,953	474,949
Bank deposits not yet receipted	478,051	456,030
	7,453,379	3,328,052

10. Consumer deposits

Electricity	1,180,287	993,012
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No guarantees held in lieu of Electricity Deposits.

11. VAT payable

Tax refunds payables	-	305,458
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

12. VAT receivable

VAT	1,519,531	-
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

13. Other employee benefits

Reconciliation of other employee benefits - 2011

	Opening Balance	Contributions to provision	Expenditure incurred	Total
Provision for leave	2,689,523	103,463	(640,526)	2,152,460

Reconciliation of other employee benefits - 2010

	Opening Balance	Contributions to provision	Expenditure incurred	Total
Provision for leave	1,799,537	1,387,387	(497,401)	2,689,523

14. Employee benefit obligations

Post-employment medical benefits

The municipality operated on 5 accredited medical aid schemes, namely KeyHealth, LA Health, SAMWU, Bonitas and HosMed.

Pensioners continue on the option they belonged to on the day of their retirement. The independent valuers, One Pangaea Financial, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
14. Employee benefit obligations (continued)		
Discount rate per annum	8.50 %	9.00 %
Salary inflation	7.00 %	7.00 %
Consumer price index (CPI)	6.00 %	6.00 %
Health care cost inflation rate	7.00 %	7.50 %
Net effective discount rate	1.40 %	1.40 %
Average retirement age	63	63
Mortality during employment	SA 85-90	
Mortality post-retirement	PA 90-2	
Proportion married		
Age	Males	Females
Age 20	5.0 %	2.5 %
Age 25	25.0 %	12.5 %
Age 30	55.0 %	27.5 %
Age 35	78.0 %	39.0 %
Age 40	84.0 %	42.0 %
Age 45	85.0 %	42.5 %
Age 50	86.0 %	43.0 %
Age 55	88.0 %	44.0 %
Age 60	92.0 %	46.0 %
<p>We have assumed that children and orphans will be subsidised until the age of 21. If a child/orphan is currently over the age of 21, we have assumed that the child/orphan will be considered as an adult by the relevant medical scheme. The child over 21 will continue to be subsidised until the age of 23.</p> <p>We have not make any allowance for active members to have child dependants in retirement.</p> <p>Movement in the defined benefit obligation is as follows:</p>		
Balance at beginning of the year	3,483,000	3,045,000
Current service cost	248,000	230,000
Interest cost	311,000	271,000
Expected benefit payments	(65,000)	(63,000)
Balance at end of year	3,977,000	3,483,000
<p>Percentage of in-service members withdrawing before retirement:</p>		
Age 20		12.0 %
Age 25		6.6 %
Age 30		5.1 %
Age 35		3.6 %
Age 40		2.6 %
Age 45		1.8 %
Age 50		1.1 %
Age 55+		- %

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
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14. Employee benefit obligations (continued)

Percentage of ill-health and early retirement rates:

Age 31	0.02 %
Age 35	0.10 %
Age 40	0.20 %
Age 45	0.30 %
Age 50	0.50 %
Age 55	1.00 %
Age 60	1.80 %
Age 62	2.32 %

The post-employment health case liability was calculated based on the assumption that 100% of active members, or their surviving dependants, would continue membership of the medical scheme after retirement. Similarly, we have assumed that 100% of spouses of deceased pensioners will continue with their medical scheme membership.

- Sensitivity Analysis

Table 1 summarises the results of the sensitivity analysis and are disclosed in (R Millions)

Assumption	1% decrease	Valuation basis	1% increase	Valuation basis Pa (90) - 2	PA (90) - 3
Health care cost inflation	3.313	3.977	4.834	-	-
Mortality	-	-	-	3.977	4.119

Long service awards and retirement gifts

The independent valuers, One Pangaea Financial, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

Discount rate per annum	8.50 %	9.00 %
General Salary Inflation (long term)	7.00 %	7.00 %
Net effective discount rate	1.40 %	1.40 %

Examples of mortality rates used were as follows:

Average retirement age	63	63
Mortality during employment	SA 85-90	SA 85-90

Members resigned from service

	Per 1,000 members
Age 20	100
Age 25	100
Age 30	50
Age 35	50
Age 40	25
Age 45+	-

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
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14. Employee benefit obligations (continued)

Movement in the defined benefit obligation is as follows:

Balance at beginning of the year	1,655,709	1,555,896
Current service cost	194,698	152,655
Interest cost	155,656	128,798
Expected benefit payments	(147,815)	(113,651)
Recognised actuarial (gains)/losses	249,447	(67,989)
Balance at end of year	2,107,695	1,655,709

The amounts recognised in the Statement of Financial Performance were as follows:

Current service cost	194,698	152,655
Interest cost	155,656	128,798
Benefit payments	(147,815)	(113,651)
Actuarial (gains)/losses	249,447	(67,989)
	451,986	99,813

In conclusion:

Statement of Financial Position obligation for

Long service awards	2,107,695	1,655,709
Retirement benefit	3,977,000	3,483,000
	6,084,695	5,138,709

Statement of Financial Performance obligation for

Long service award	451,986	99,812
Retirement benefit	494,000	438,000
	945,986	537,812

- Sensitivity Analysis

Table 1 summarises the results of the sensitivity analysis.

Table 1: Sensitivity Analysis on the Unfunded Accrued Liability (R Millions)

Assumption	1% decrease	Valuation basis	1% increase
Salary	1.760	1.905	2.069
Discount rate	2.068	1.905	1.763

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Corridor development grant income	555,010	1,663,405
Gijima grant income	13,959	13,959
Management assistance programme	(1)	276,075
Municipal system improvement grant	47	(1)
MIG grants	1	3,152,719
Sport and recreation grant	237,490	237,490
NDP grant	(634,891)	10,584,745
Local government support grant	-	397,556
Housing capital grant	5,859	22,715
SMME Nedbank	114,912	-
	292,386	16,348,663
See note 31 for reconciliation of grants and receipts.		
These amounts are invested in a ring-fenced investment until utilised.		
16. Borrowings		
Annuity loans	134,499	330,840
Non-current liabilities		
Annuity loans	34,185	134,454
Current liabilities		
Annuity loans	100,314	196,386
	134,499	330,840
17. Housing reserve fund		
Housing reserve fund		
Balance	1,504,439	1,394,440
Interest income	68,530	109,999
	1,572,969	1,504,439
Interest on housing fund		
Interest received	68,530	109,999
Transfer to Housing reserve fund	(68,530)	(109,999)
	-	-

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
18. Revenue		
Property rates	20,451,224	21,914,259
Property rates – Penalties imposed and collection charges	392,998	295,864
Service charges	13,354,630	12,901,660
Rental of facilities & equipment	186,623	185,744
Fines	451,559	365,037
Licences and permits	1,191,138	1,805,113
Government grants & subsidies	102,339,356	87,683,876
	138,367,528	125,151,553
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	13,354,630	12,901,660
Rental of facilities & equipment	186,623	185,744
Licences and permits	1,191,138	1,805,113
	14,732,391	14,892,517
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	20,451,224	21,914,259
Property rates – Penalties imposed and collection charges	392,998	295,864
Fines	451,559	365,037
Transfer revenue		
Government Grant and Subsidies	102,339,356	87,683,876
	123,635,137	110,259,036

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
19. Property rates		
Rates received		
Residential	7,845,121	5,788,495
Commercial	10,434,889	10,023,222
State	2,171,214	6,102,542
	<u>20,451,224</u>	<u>21,914,259</u>
Property rates - penalties imposed and collection charges	392,998	295,864
	<u>20,844,222</u>	<u>22,210,123</u>
Valuations		
Residential	679,268,000	579,921,680
Commercial	107,906,500	94,741,500
Industrial	64,363,000	105,863,000
Industrial Estate Special	417,505,000	421,169,000
Mining	14,000,000	22,800,000
Agricultural	299,728,000	161,590,000
Agricultural	-	3,205,000
Institutional	50,337,000	32,896,800
Public Services Infrastructure	137,657,000	237,355,300
	<u>1,770,764,500</u>	<u>1,659,542,280</u>

Commercial includes industrial mining and agriculture.

State includes institutional and public services infrastructure.

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2007. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The following are the rates randage that were applied to the valuations in respect of the various categories:

- Residential: R0.0112
- Commercial: R0.018
- Industrial: R0.0191
- Industrial Estate Special: R0.014
- Mining: R0.0213
- Agriculture: R0.003
- Public Service Infrastructure: R0.0169

All residential property owners are exempt from paying rates on the first R15,000.00 value of property. All pensioners, the disabled and medically boarded owners are eligible for the rebates.

Rates are levied on an annual basis with the final date for payment being 31 May 2011 (31 May 2010).

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
20. Service charges		
Sale of electricity	8,978,793	8,225,499
Refuse removal	4,375,837	4,676,161
	13,354,630	12,901,660
21. Rental of facilities and equipment		
Hall hire	20,953	40,382
Staff housing	165,670	145,362
	186,623	185,744
22. Interest received - external investments		
Bank	2,001,559	860,987

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
23. Government grants and subsidies		
Equitable share	49,628,975	40,644,965
Finance management grant	1,141,112	750,000
Municipal systems improvement grant	672,400	438,639
Management assistant programme	-	123,925
Grant roll overs	14,190,175	1,726,790
Local government support grant	-	202,444
Health subsidy	1,103,542	1,008,600
MIG grant	11,508,698	15,355,514
Housing grant	9,848,036	24,207,634
Neighbourhood development partnership grant	12,630,302	3,225,365
Library grant	90,000	-
Corridor/ Shared service	1,526,116	-
	102,339,356	87,683,876

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Balance unspent at beginning of year	-	-
Current-year receipts	49,628,975	40,644,965
Conditions met - transferred to revenue	(49,628,975)	(40,644,965)
	-	-

Finance management grant

Balance unspent at beginning of year	-	71,162
Current-year receipts	1,200,000	750,000
Conditions met - transferred to revenue	(1,200,000)	(821,162)
	-	-

Conditions still to be met - remain liabilities (see note 15).

This grant is used to set up and support the budget and treasury office and financing the appointment of finance interns.

Municipal system improvement grant

Balance unspent at beginning of year	(1)	30,617
Current-year receipts	750,000	408,022
Conditions met - transferred to revenue	(749,952)	(438,640)
	47	(1)

Conditions still to be met - remain liabilities (see note 15).

This grant was used to implement new financial systems, the GRAP conversion process, ward participation and debt management activities.

Management assistance programme

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
23. Government grants and subsidies (continued)		
Balance unspent at beginning of year	276,075	323,536
Current-year receipts	-	400,000
Conditions met - transferred to revenue	(276,076)	(447,461)
	(1)	276,075

Conditions still to be met - remain liabilities (see note 15).

The grant is used to set up policies and procedures and to assist with issues of good governance.

Local government support grant

Balance unspent at beginning of year	397,556	-
Current-year receipts	-	600,000
Conditions met - transferred to revenue	(397,556)	(202,444)
	-	397,556

Conditions still to be met - remain liabilities (see note 15).

This is the initiative by Provincial COGTA to ensure that proper governance structures are created in municipalities.

Health subsidy

Current-year receipts	1,103,542	1,068,600
Conditions met - transferred to revenue	(1,103,542)	(1,068,600)
	-	-

Conditions still to be met - remain liabilities (see note 15).

The municipality renders health services on behalf of the Provincial Government. This grant is used to fund the clinic services.

MIG grant

Balance unspent at beginning of year	3,152,719	5,425,534
Current-year receipts	13,987,000	13,082,699
Conditions met - transferred to revenue	(17,139,718)	(15,355,514)
	1	3,152,719

Conditions still to be met - remain liabilities (see note 15).

This grant is used to construct roads infrastructure.

Housing grant

Balance unspent at beginning of year	22,715	679,805
Current-year receipts	9,452,937	23,038,169
Conditions met - transferred to revenue	(9,469,793)	(23,695,259)
	5,859	22,715

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
23. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 15).		
This grant is used is used to construct the low cost housing infrastructure by the Department of Housing (Provincial).		
Neighbourhood development partnership grant		
Balance unspent at beginning of year	10,584,745	-
Current-year receipts	13,670,000	14,261,661
Conditions met - transferred to revenue	(24,889,636)	(3,676,916)
	(634,891)	10,584,745
Conditions still to be met - remain liabilities (see note 15).		
The focus of this grant is to stimulate and accelerate investment in poor underserved residential neighbourhood areas.		
Library grant		
Balance unspent at beginning of year	-	78,900
Current-year receipts	90,000	-
Conditions met - transferred to revenue	(90,000)	(78,900)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
This grant is utilised to fund the acquisition of library materials.		
Waste management grant		
Balance unspent at beginning of year	-	15,181
Current-year receipts	-	171,390
Conditions met - transferred to revenue	-	(186,571)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
This grant has been used to develop the waste management master plan.		
Umsobomvu youth grant		
Balance unspent at beginning of year	-	48,364
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(48,364)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
The fund was used for the initiatives of the Umsobomvu youth council to decimate the needs of the youth at local level and to promote access to information and business ownership as well as to reduce unemployment.		

MANDENI MUNICIPALITY

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
23. Government grants and subsidies (continued)		
Corridor development grant		
Balance unspent at beginning of year	1,663,405	1,800,459
Current-year receipts	2,317,790	-
Conditions met - transferred to revenue	(3,426,185)	(137,054)
	555,010	1,663,405
Conditions still to be met - remain liabilities (see note 15).		
This grant is used to promote local economic development on tourism nodes identified by the KZN Corridor Development Programme within the northern municipal planning region. A beach facility has been created.		
Integrated development plan grant		
Balance unspent at beginning of year	-	105,378
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(105,378)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
This grant was used to assist the municipality in improving the IDP Implementation.		
Gijima grant		
Balance unspent at beginning of year	13,959	49,502
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(35,543)
	13,959	13,959
Conditions still to be met - remain liabilities (see note 15).		
The funds received are utilised for the promotion of tourism and LED activities.		
Sports and recreation grant		
Balance unspent at beginning of year	237,490	610,105
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(372,615)
	237,490	237,490
Conditions still to be met - remain liabilities (see note 15).		
Department of sport and recreation provides funds for the development of local sport facilities.		
SMME Nedbank		

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
23. Government grants and subsidies (continued)		
Balance unspent at beginning of year	-	-
Current-year receipts	200,000	-
Conditions met - transferred to revenue	(85,088)	-
	114,912	-

Conditions still to be met - remain liabilities (see note 15).

This grant was used to capacitate SMMEs.....

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act ...of 20X2), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Other income

Building plan fees	96,610	25,318
Sundry income	627,056	763,096
Tuck shop - swimming pool	-	196
Traffic escort services	219	-
Testing of meters	809	-
Donations	3,000	-
Connection fees	29,507	19,526
Entrance fees - swimming pool	11,601	12,824
Photocopy charges	23,266	34,497
Rates certificates	14,595	17,009
Reconnection fees	77,110	75,993
VAT income	5,537,087	2,364,370
	6,420,860	3,312,829

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
25. Employee related costs		
Basic	17,082,837	14,724,598
Medical aid - company contributions	1,489,757	1,244,831
UIF	172,694	131,084
WCA	18,755	13,210
SDL	276,567	250,160
Leave pay provision charge	103,463	1,305,919
Post-employment benefits - Pension - Defined contribution plan	2,498,219	2,209,275
Overtime payments	437,174	224,770
Car allowance	1,853,615	1,642,701
Housing benefits and allowances	135,054	157,745
Cellphone allowance	163,630	121,060
Pension surcharge	90,090	55,220
	24,321,855	22,080,573
There were no advances to employees/Loans to employees are set out in note 5.		
Remuneration of municipal manager		
Annual Remuneration	583,704	541,674
Travel, motor car, accommodation, subsistence and other allowances	296,285	260,818
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	67,124	82,664
	947,113	885,156
Remuneration of chief finance officer		
Annual Remuneration	490,694	466,414
Travel, motor car, accommodation, subsistence and other allowances	252,520	235,689
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	36,563	27,104
	779,777	729,207
Remuneration of individual executive directors (corporate services)		
Annual Remuneration	472,694	466,414
Travel, motor car, accommodation, subsistence and other allowances	246,514	224,982
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	62,165	37,880
	781,373	729,276
Remuneration of individual executive directors (technical services)		
Annual Remuneration	367,897	466,414
Travel, motor car, accommodation, subsistence and other allowances	107,686	166,660
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	45,038	96,047
	520,621	729,121

MANDENI MUNICIPALITY

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
26. Remuneration of councillors		
Executive Major	275,743	265,008
Deputy Executive Mayor	161,704	150,960
Mayoral Committee Members	719,804	713,868
Speaker	365,562	334,422
Councillors	3,049,924	3,078,758
Councillors' allowances	1,638,448	1,671,051
In-kind benefits		
The Speaker is full-time. The Mayor and the Speaker are provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor has use of the Council owned vehicle for official duties.		
The Executive Mayor has two full-time bodyguards.		
27. Depreciation and amortisation		
Property, plant and equipment	17,505,618	3,777,755
28. Finance costs		
Borrowings	43,137	77,635
29. Bulk purchases		
Electricity	5,868,382	4,367,300
30. Contracted services		
Security of municipal property	1,925,442	1,406,315
Solid waste management	7,052,732	5,216,594
	8,978,174	6,622,909

Enforce Security is responsible of the security of the municipal property.

Mandeni Waste Removal is responsible for the removal of solid waste management.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
31. Grants and subsidies paid		
Other subsidies		
Management assistance programme	(1)	123,925
Finance management grant	1,141,112	750,000
Municipal systems improvement grant	672,400	438,639
Grants rolled over	1,425,856	1,275,144
Local government support grant	-	202,444
Local economic development	-	132,103
MIG Capital	-	1,858,625
Housing capital	9,848,036	24,207,634
Library grant	90,000	-
	13,177,403	28,988,514

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
32. General expenses		
Advertising	203,539	168,444
Aids awareness	51,266	34,265
Arts and culture forum	3,419	4,584
Audit - internal	374,673	367,798
Audit committees	77,508	51,103
Auditors remuneration	1,188,151	996,063
Bank charges	211,930	178,115
Contributions to capital outlay	1,121,431	338,301
Dog unit	2,460	776
Educators forum	-	4,399
Electricity - health	73,820	36,842
Electricity - internal	490,612	368,484
Environmental forum	-	1,380
Fire arm shooting	560	560
Fuel and oil	1,020,287	770,913
GRAP implementation	417,487	222,505
Health supplies	225,022	56,142
Hire	205,044	341,296
Insurance	446,629	237,126
LED Forum	22,000	5,593
Lease rentals on operating lease	973,405	1,022,725
Legal and professional fees	1,006,091	930,428
Licenses	228,143	362,548
Literature acts and books	8,105	19,166
Master system plans/IT plan, strategy	-	153,589
Office cleaning	77,695	93,437
Office teas	10,356	9,984
Other expenses	843,226	-
Pauper/indigent burial	92,276	82,815
Postage and courier	193,292	212,529
Printing and stationery	343,995	256,191
Property revaluation	150,000	62,500
Protection services	11,326	10,089
Public functions	385,604	153,884
Public participation	530,692	18,244
Publications	282,531	94,624
Rates council property	8,945	9,714
Refuse	1,774	87,774
Small tools	14,242	26,965
Special programmes	190,696	141,858
Sports and recreation	358,728	329,797
Subscriptions and membership fees	348,327	107,607
Subsistence and travelling	466,175	533,265
Sundry expenses	514,796	629,649
Telephone and fax	1,153,661	1,173,020
Town planning costs	455	95,354
Training	631,970	329,354
Tuck shop - expenses	-	525
Uniforms	80,240	112,287
Ward committees	139,657	60,114
Water	361,948	590,462
Workmans compensation	150,033	-

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
32. General expenses (continued)		
Youth programmes	110,510	355,186
	15,804,732	12,250,373
33. Profit/(Loss) on Fair Value Adjustment		
No fair value adjustments made on assets.		
34. Cash generated from operations		
Surplus	35,051,425	2,154,379
Adjustments for:		
Depreciation and amortisation	17,505,618	3,777,755
Loss on sale of assets and liabilities	-	(84,560)
Inventory write down	-	279
Impairment loss	585,849	17,803
Debt impairment	9,688,680	31,795,601
Movements in retirement benefit assets and liabilities	945,986	537,812
Movements in provisions	(537,063)	889,986
Changes in working capital:		
Inventories	(10,416)	(33,562)
Other receivables from non-exchange transactions	3,911,889	(6,614,406)
Consumer debtors	(9,483,613)	(4,419,835)
Trade and other payables from exchange transactions	4,125,327	1,956,501
VAT	(1,824,989)	245,750
Unspent conditional grants and receipts	(16,056,277)	7,110,119
Consumer deposits	187,275	59,985
Movement in housing operating account	68,494	109,999
	44,158,185	37,503,606
35. Utilisation of Long-term liabilities reconciliation		
Long-term liabilities raised	134,499	330,840
Used to finance property, plant and equipment	(134,499)	(330,840)
Cash set aside for the repayment of long-term liabilities	-	-
	-	-

Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

36. Changes in accounting policy

The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and changes to existing policies as at 30 June 2011.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
36. Changes in accounting policy (continued)		
Correction of errors in accordance with GRAP 3		
During the year, the municipality changed its accounting policy with respect to the treatment of Property Plant and Equipment. In order to conform with the benchmark treatment in of GRAP 17 – PPE.		
The comparative amount has been restated as follows:		
Incorrect take on balance on accumulated surplus	-	476,371
Write off claim on stolen cash in 2007	-	(128,948)
Incorrect allocation	-	93,098
	-	440,521
The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2010 is as follows:		
Statement of financial position		
Property, plant and equipment		
Previously stated	-	51,790,865
Adjustment	-	134,053,604
	-	185,844,469
Opening retained earnings		
Previously stated	-	67,438,839
Adjustment	-	134,053,604
	-	201,492,443
37. Prior period errors		
The correction of the error(s) results in adjustments as follows:		
Statement of financial position		
Property, plant and equipment	-	3,676,916
Retirement benefits on Medical Aid	-	(3,483,000)
Long service awards	-	(1,655,709)
Accumulated Surplus or Deficit	-	13,496,889
Accumulated Surplus or Deficit	-	417,844
	-	12,452,940
Statement of Financial Performance		
Retirement contribution	-	(537,812)
Grants and subsidies paid	-	13,496,889
	-	12,959,077

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
37. Prior period errors (continued)		
Cash flow statement		
Cash flow from operating activities		
Capitalisation of Grants that met/condition on assets	-	13,496,889
Changes in Working Capital - Unspent conditional grants and receipts	-	417,844
Retirement benefits	-	(3,483,000)
Long service awards	-	(1,655,709)
	-	8,776,024
38. Unauthorised expenditure		
There was no unauthorised expenditure.		
39. Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure		
Opening balance	162,804	5,659
Fruitless and wasteful expenditure current year	-	157,145
Condoned or written off by Council	(162,804)	-
To be recovered - contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	-	162,804
Incident - Disciplinary steps/criminal proceedings		
Interest and penalties on under-declared income to SARS	-	162,804
40. Irregular expenditure		
Reconciliation of irregular expenditure		
Opening balance	40,064,356	31,726
Irregular Expenditure - current year	9,303,740	-
Condoned or written off by Council	-	(31,726)
Transfer to receivable for recovery - not condoned	-	40,064,356
Irregular expenditure awaiting condonement	49,368,096	40,064,356
Details of irregular expenditure – current year		
Incident	Disciplinary steps taken/criminal proceedings	
Payments made without Reasons for not having three quotation	Not Applicable	4,876,613
Payments made without obtaining Tax clearance		353,046
Payments made to suppliers who are not on the database	Not Applicable	4,074,081
		9,303,740

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
40. Irregular expenditure (continued)		
Details of irregular expenditure – prior year		
Incident	Disciplinary steps taken/criminal proceedings	
Payments made without Reasons for not having three quotation	Not Applicable	665,052
No public invitation was made for quotations above R30,000.00	Not Applicable	114,912
Procurement made without preference points system being used	Not Applicable	200,295
Payments made without obtaining Tax clearance	Not Applicable	1,152,129
Awards made that are above R10 Million before 30 days advertising period	Not Applicable	37,931,968
		40,064,356
41. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	-	-
Council subscriptions	164,680	89,652
Amount paid - current year	(64,679)	(89,652)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	100,001	-
Audit fees		
Opening balance	-	-
Current year audit fee	1,188,151	996,063
Amount paid - current year	(1,188,151)	(996,063)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-
VAT		
VAT receivable	1,519,531	-
VAT payable	-	305,458
	1,519,531	305,458
PAYE and UIF		
Opening balance	-	-
Current year payroll deductions	3,689,818	3,772,978
Amount paid - current year	(3,689,818)	(3,772,978)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-
The balance represents PAYE and UIF deducted from the June 2011 payroll. These amounts were paid during July 2011.		

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
41. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension and Medical Aid Deductions		
Opening balance	-	-
Current year payroll deductions and Council Contributions	5,309,514	6,092,609
Amount paid - current year	(5,309,514)	(6,092,609)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-

The balance represents pension and medical aid contributions deducted from employees payroll as well as Council's contributions to pension and medical aid funds. These amounts were paid during July 2010.

Councillors' arrear consumer accounts

No Councillors were in arrears account for more than 90 days as at 30 June 2011.

Supply chain management deviations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident

Consumables	13,150	-
Legal fees	132,468	-
Publications	19,654	-
Repairs and Maintenance	91,810	-
	257,082	-

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
42. Commitments		
Commitments in respect of capital expenditure		
Approved and contracted for		
• Infrastructure	31,363,016	23,854,266
Approved but not yet contracted for		
• Infrastructure	-	195,095
This expenditure will be financed from		
Government grants	30,196,655	24,049,361
Own resources	-	-
District Council Grants	1,166,361	-
	31,363,016	24,049,361
Operating leases - as lessee (expense)		
At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:		
Minimum lease payments due		
- within one year	119,125	1,128,209
- in second to fifth year inclusive	701,271	1,247,331
- later than five years	-	-
	820,396	2,375,540

Operating leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of three years. No contingent rent is payable.

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	2011	2010
	R	R

43. Retirement benefit information

Defined Benefit Plan

The following are defined benefit plans: Natal Joints Superannuation, Retirement and Provident Funds (NJMP). These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by multi-employer plan. It is therefore deemed impractical to obtain this information at a suitable level of detail. Current contributions by council are charged against expenditure on the basis of current service costs. Full actuarial valuations are performed at least every 5 years. The last valuation was done on 31 March 2006.

An interim valuation carried on the NJMP Superannuation (Defined Benefit) at 31 March 2006 concluded that the surcharge of 6% be retained for the year 30 June 2007 and thereafter at 4.5%.

The latest statutory valuation of the NJMP Retirement (Defined Benefit) as at 31 March 2007 reflects a fund deficit of R229,8 million in respect of the members. The total contribution rate payable, including the total surcharge of 14%, will eliminate the deficit by the year 2010.

The latest statutory valuation of the NJMP Provident Fund (Defined Contribution) as at 03 March 2007 revealed that the fund was in a sound financial position.

An amount of R2 498 218 was contributed by council in respect of councillors' and employees' retirement funding. These contributions have been expensed and are included in employee related costs for the year.

44. Contingencies

Contingent liabilities

Mandeni municipality vs Sparks motors

1,500,000	1,500,000
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Claims against the municipality on service contract cancelled before it expire. Deneys Reitz attorneys are involved in the matter to defend the claim. We were advised by the attorneys that there is a 50% chance to win the matter. The matter is pursuit after the clarity on estimate liability was confirmed at R1,500,000.00

Contingent assets

No contingent asset was reported in this financial year.

MANDENI MUNICIPALITY

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2011	2010
R	R

45. Related parties

No related party transactions and/or balances

46. Events after the reporting date

There are no events that were reported at the reporting date.

47. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant and equipment
- Fair value of plan assets
- Provision for doubtful debts
- Impairment of assets

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

48. Risk management

Financial instruments

Exposure to currency, interest rate, credit risk and liquidity risks arise in the normal course of the municipality's business.

Financial risk management

The municipality has exposure to the following risks from its use of financial instruments:

- Liquidity Risk
- Interest Rate Risk
- Credit Risk

This note presents information about the municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these financial statements.

The Council and the Accounting Officer have overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyze the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the municipality's activities.

MANDENI MUNICIPALITY

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
48. Risk management (continued)		
The municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations.		
Financial Assets		
Investments	5,687,455	5,416,165
Trade and other receivables	6,954,651	8,873,822
Inventories	315,006	304,590
Cash and cash equivalents	29,291,499	26,473,253
Total Assets	42,248,611	41,067,830
Financial Liabilities		
VAT payable	-	305,458
Trade and other payables	7,453,379	3,328,052
Consumer deposits	1,180,287	993,012
Trade and other payables	8,633,666	4,626,522
Loans received	134,499	330,840
Unspent grants	970,610	16,348,663
Total Liabilities	9,738,775	21,306,025

The Accounting Officer is of the opinion that the values reflected in the financial statements are a true reflection of Fair values of both the Financial Assets and Liabilities.

Basis of determining Fair Value

Trade and other receivables/payables

The fair value of trade & other receivable is estimated to be the actual receipts expected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in raising funds to meet its commitments. The municipality's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation. The bulk portions of investments held are short term and can be converted when required.

Total balance of liquidity risk Rnil as financial assets exceed financial liabilities.

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2011 R	2010 R
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48. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the municipality's capacity to service such debt from future earnings and allocations however the long term loan's interest rate is fixed throughout the term of repayment. Balances exposed to the interest rate risk.

Investments	5,687,455	5,416,165
Cash and cash equivalents	29,291,499	26,473,253
	34,978,954	31,889,418

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the municipality, thereby causing financial loss to the municipality. It is the municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Trade and other receivables from exchange transactions	3,922,947	6,895,985
VAT receivable	1,519,531	-
Other receivables	1,512,173	1,977,837
	6,954,651	8,873,822

The ageing of trade receivables at the reporting date was

	2011 Gross	2011 Impairment	2010 Gross	2010 Impairment
Current	1,563,637	969,561	888,828	-
Past Due: 0 - 30	-	-	17,965	-
Past Due: 0 - 120	81,247	81,247	30,158	15,182
More than 120	731,227	731,227	129,142	129,142

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

49. Statement of comparative and actual information

2011

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	18,204,800	18,204,800	18,204,800	20,844,222	(2,639,422)	114 %	114 %
Service charges	14,093,932	14,093,932	14,093,932	13,354,630	739,302	95 %	95 %
Investment revenue	1,300,000	1,300,000	1,300,000	2,001,559	(701,559)	154 %	154 %
Transfers recognised - income	57,993,964	57,993,964	57,993,964	68,262,320	(10,268,356)	118 %	118 %
Other own income	9,341,884	7,191,884	7,191,884	8,250,180	(1,058,296)	115 %	88 %
Total revenue (excluding capital transfers and contributions)	100,934,580	98,784,580	98,784,580	112,712,911	(13,928,331)	114 %	112 %
Employee costs	(28,237,424)	(28,237,424)	(28,237,424)	(27,350,739)	(886,685)	97 %	97 %
Remuneration of councillors	(6,990,677)	(6,990,677)	(6,990,677)	(6,211,185)	(779,492)	89 %	89 %
Debt impairment	(7,408,724)	(7,408,724)	(7,408,724)	(9,688,680)	2,279,956	131 %	131 %
Depreciation and asset impairment	(3,306,521)	(3,306,521)	(3,306,521)	(17,505,618)	14,199,097	529 %	529 %
Finance charges	(610,912)	(610,912)	(610,912)	(43,137)	(567,775)	7 %	7 %
Materials and bulk purchases	(22,429,301)	(21,757,301)	(21,757,301)	(5,868,382)	(15,888,919)	27 %	26 %
Transfers and grants	(6,701,121)	(6,701,121)	(6,701,121)	(13,177,403)	6,476,282	197 %	197 %
Other expenditure	(25,249,900)	(23,771,900)	(23,771,900)	(31,893,378)	8,121,478	134 %	126 %
Total expenditure	(100,934,580)	(98,784,580)	(98,784,580)	(111,738,522)	12,953,942	113 %	111 %
Surplus/(Deficit)	-	-	-	974,389	(974,389)	DIV/0 %	DIV/0 %

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

49. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	34,077,036	(34,077,036)	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	-	-	-	35,051,425	(35,051,425)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	-	-	-	35,051,425	(35,051,425)	DIV/0 %	DIV/0 %

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

49. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Sources of capital funds							
Total capital expenditure	69,086,865	69,086,865	69,086,865	29,346,236	39,740,629	42 %	42 %
Internally generated funds	9,266,000	9,266,000	9,266,000	1,448,813	7,817,187	16 %	16 %
Total sources of capital funds	78,352,865	78,352,865	78,352,865	30,795,049	47,557,816	39 %	39 %
Cash flows							
Net cash from (used) operating	-	-	-	44,158,185	(44,158,185)	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-	(40,076,125)	40,076,125	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-	(196,341)	196,341	DIV/0 %	DIV/0 %
Net increase / (decrease) in cash and cash equivalents	-	-	-	3,885,719	(3,885,719)	DIV/0 %	DIV/0 %
Cash and cash equivalents at the beginning of the year	-	-	-	31,889,418	(31,889,418)	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	-	-	-	35,775,137	(35,775,137)	DIV/0 %	DIV/0 %

MANDENI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Schedule of external loans as at 30 June 2011

Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Annuity loans							
DBSA @ 15.82%	1	31/12/2010	44,361	-	44,361	-	-
DBSA @ 15.82%	2	31/12/2011	150,434	-	96,471	53,963	-
DBSA @ 15.82%	3	31/12/2012	47,279	-	30,319	16,960	-
DBSA @ 15.82%	4	31/12/2013	88,764	-	25,234	63,530	-
			330,838	-	196,385	134,453	-
Total external loans							
Annuity loans			330,838	-	196,385	134,453	-
			330,838	-	196,385	134,453	-

Mandeni Municipality
Unaudited Appendix B
June 2011

Analysis of property, plant and equipment as at 30 June 2011	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	336,373	-	-	-	-	-	336,373	-	-	-	-	-	-	336,373
Buildings	518,870	630,550	-	-	-	-	1,149,420	(362,101)	-	-	(19,047)	-	(381,148)	768,272
	855,243	630,550	-	-	-	-	1,485,793	(362,101)	-	-	(19,047)	-	(381,148)	1,104,645
Infrastructure														
Roads	161,580,879	18,879,338	-	-	-	-	180,460,217	(1,805,278)	-	-	(15,844,294)	-	(17,649,572)	162,810,645
Electricity Mains	1,980,192	-	-	-	-	-	1,980,192	(9,928)	-	-	(97,387)	-	(107,315)	1,872,877
	163,561,071	18,879,338	-	-	-	-	182,440,409	(1,815,206)	-	-	(15,941,681)	-	(17,756,887)	164,683,522
Community Assets														
Recreational grounds	1,333,424	11,973,316	-	-	-	-	13,306,740	(3,504)	-	-	(290)	-	(3,794)	13,302,946
Civic buildings	2,311,469	8,864,636	(1,011,494)	-	-	-	10,164,611	(989,227)	426,927	-	(93,872)	-	(656,172)	9,508,439
Stadiums	13,799,288	2,988,981	-	-	-	-	16,788,269	(2,387,492)	-	-	(437,575)	-	(2,825,067)	13,963,202
	17,444,181	23,826,933	(1,011,494)	-	-	-	40,259,620	(3,380,223)	426,927	-	(531,737)	-	(3,485,033)	36,774,587

June 2011

Cost/Revaluation

Other assets

Total property plant and equipment

Investment properties

Total

June 2010

Cost/Revaluation

Land and buildings

Land	336,373	-	-	-	-	-	336,373	-	-	-	-	-	336,373
Buildings	518,870	-	-	-	-	-	518,870	(344,805)	-	-	(17,296)	(362,101)	156,769
	855,243	-	-	-	-	-	855,243	(344,805)	-	-	(17,296)	(362,101)	493,142

Infrastructure

Roads	32,875,209	159,963,037	(31,257,367)	-	-	-	161,580,879	(11,904,153)	13,708,585	-	(3,599,782)	-	(1,795,350)	159,785,529
Electricity Mains	3,136,191	1,980,192	(3,136,191)	-	-	-	1,980,192	(2,721,452)	2,808,008	-	(96,484)	-	(9,928)	1,970,264
	36,011,400	161,943,229	(34,393,558)	-	-	-	163,561,071	(14,625,605)	16,516,593	-	(3,696,266)	-	(1,805,278)	161,755,793

Community Assets

Recreational grounds	12,143,133	1,656,155	-	-	-	-	13,799,288	(1,972,630)	-	-	(414,862)	-	(2,387,492)	11,411,796
Civic buildings	2,311,469	-	-	-	-	-	2,311,469	(919,979)	-	-	(69,248)	-	(989,227)	1,322,242
Stadiums	1,333,424	-	-	-	-	-	1,333,424	(3,214)	-	-	(290)	-	(3,504)	1,329,920
	15,788,026	1,656,155	-	-	-	-	17,444,181	(2,895,823)	-	-	(484,400)	-	(3,380,223)	14,063,958

June 2010

Cost/Revaluation

Other assets

Total property plant and equipment

Investment properties

Total

June 2011

Cost/Revaluation

Municipality

Mandeni Municipality
Unaudited Appendix D

June 2011

Segmental Statement of Financial Performance for the year ended
Prior Year **Current Year**

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
14,867,223	15,993,210	(1,125,987)	Executive & Council/Mayor and Council	2,040,000	13,884,743	(11,844,743)
54,808,549	45,478,053	9,330,496	Finance & Admin/Finance	76,185,505	40,008,077	36,177,428
18,751,559	24,703,640	(5,952,081)	Planning and Development/Economic Development/Plan	26,413,807	31,695,675	(5,281,868)
1,068,600	1,321,684	(253,084)	Health/Clinics	1,103,542	1,679,843	(576,301)
97,842	9,388,813	(9,290,971)	Comm. & Social/Libraries and archives	138,450	5,089,473	(4,951,023)
24,207,634	24,220,473	(12,839)	Housing	5,876,186	5,898,858	(22,672)
2,155,222	5,478,875	(3,323,653)	Public Safety/Police	1,636,179	6,271,248	(4,635,069)
-	-	-	Sport and Recreation	11,601	383,532	(371,931)
-	-	-	Environmental Protection/Pollution Control	-	3,470,580	(3,470,580)
4,676,161	5,304,961	(628,800)	Waste Water Management/Sewerage	4,375,837	7,796,933	(3,421,096)
-	5,363,227	(5,363,227)	Road Transport/Roads	11,508,698	14,755,183	(3,246,485)
8,771,018	6,632,490	2,138,528	Electricity /Electricity Distribution	11,378,219	9,273,473	2,104,746
129,403,808	143,885,426	(14,481,618)		140,668,024	140,207,618	460,406
129,403,808	143,885,426	(14,481,618)	Municipality	140,668,024	140,207,618	460,406
129,403,808	143,885,426	(14,481,618)	Total	140,668,024	140,207,618	460,406

Mandeni Municipality
Unaudited Appendix E(1)

June 2011

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2011

	Current year 2010 Act. Bal.	Current year 2010 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand		
Revenue					
Property rates	20,451,224	18,204,800	2,246,424	12.3	
Service charges	13,354,630	14,093,932	(739,302)	(5.2)	
Property rates - penalties imposed and collection charges	392,998	400,000	(7,002)	(1.8)	
Rental of facilities and equipment	186,623	190,000	(3,377)	(1.8)	
Fines	451,559	789,930	(338,371)	(42.8)	
Licences and permits	1,191,138	1,500,000	(308,862)	(20.6)	
Government grants & subsidies	102,339,355	57,993,964	44,345,391	76.5	
Other income	6,420,859	4,311,954	2,108,905	48.9	
Interest received - investment	2,001,559	1,300,000	701,559	54.0	
	146,789,945	98,784,580	48,005,365	48.6	
Expenses					
Personnel	(27,350,740)	(28,290,423)	939,683	(3.3)	
Remuneration of councillors	(6,211,185)	(6,990,677)	779,492	(11.2)	
Retirement benefit contribution	(945,986)	-	(945,986)	-	
Depreciation	(17,505,618)	(3,306,521)	(14,199,097)	429.4	
Finance costs	(43,136)	(610,913)	567,777	(92.9)	
Debt impairment	(9,688,680)	(7,408,724)	(2,279,956)	30.8	
Collection costs	(146,182)	-	(146,182)	-	
Repairs and maintenance - General	(5,432,454)	(6,355,901)	923,447	(14.5)	
Bulk purchases	(5,868,382)	(6,303,000)	434,618	(6.9)	
Contracted Services	(8,978,174)	(9,098,400)	120,226	(1.3)	
Grants and subsidies paid	(13,177,402)	(6,701,121)	(6,476,281)	96.6	
General Expenses	(15,804,734)	(23,718,900)	7,914,166	(33.4)	
	(111,152,673)	(98,784,580)	(12,368,093)	12.5	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	-	-	-	-	
Impairment (loss)/Reversal of impairment loss	(585,848)	-	(585,848)	-	
Gain or loss on disposal of non-current assets held for sale or disposal groups	-	-	-	-	
	(585,848)	-	(585,848)	-	
Net surplus/ (deficit) for the year	35,051,424	-	35,051,424	-	

June 2011

Additions	Revised Budget	Variance	Variance	Explanation of significant variances from budget
Rand	Rand	Rand	%	

[illegible][illegible]

-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

Mandeni Municipality
Unaudited Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2011

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Sep	Sep	Dec	Mar	Jun	Sep	Mar	Jun	Sep	Dec	Mar			
FMG	National Treasury	1,200,000	-	-	-	-	180,120	356,820	180,120	482,940	-	-	-	-	-	-		Yes	
Local Govt, Support	Provincial	-	-	-	-	-	222,591	174,966	-	-	-	-	-	-	-	-		Yes	
MAP	Provincial	-	-	-	-	-	-	-	55,915	220,160	-	-	-	-	-	-		Yes	
Library Grant	DPT Art & culture	90,000	-	-	-	-	24,171	24,171	24,171	17,487	-	-	-	-	-	-			
NDGP	National Treasury	-	-	13,670,000	-	-	2,842,895	7,182,911	3,563,598	10,622,009	-	-	-	-	-	-		Yes	
MSIG	National Treasury	750,000	-	-	-	-	141,953	102,113	450,092	55,796	-	-	-	-	-	-		Yes	
Corridor Beach Facility	Ilembe Distr.	2,000,000	-	-	-	-	-	156,472	-	2,477,792	-	-	-	-	-	-		Yes	
Corridor Sgared service	Ilembe Distr.	-	-	-	317,790	-	108,600	454,283	105,768	123,270	-	-	-	-	-	-		Yes	
Housing	Provincial	2,362,901	3,098,818	1,505,154	2,463,349	-	2,146,068	2,932,848	1,904,813	2,463,349	-	-	-	-	-	-		Yes	
MIG	National Treasury	6,300,000	6,600,000	1,087,000	-	-	2,203,337	5,315,350	2,406,336	8,037,579	-	-	-	-	-	-		Yes	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		12,702,901	9,698,818	16,262,154	2,781,139	-	7,869,735	16,699,934	8,690,813	24,500,382	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.